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CHILE: President Allende reportedly will re-vamp his cabinet in an apparent effort to secure a congressional declaration of a state of siege. Allende still holds the initiative in the wake of last Friday's abortive revolt, but he probably remains wary of the possibility of another move against him.

The disheartening effect of that day's events on the opposition may have helped Allende settle the 74-day-old El Teniente copper strike. The governing Popular Unity coalition continues to claim that the country is in its most serious situation since the civil war of 1891, however, and Allende has asked the opposition-controlled Congress to help him "crush fascism" by declaring a state of siege.

The lower house yesterday rejected this request. The National and Christian Democratic parties maintain that the state of emergency and curfew now in effect give the executive branch sufficient power to deal with the alleged threat to constitutional order and that a further curtailment of civil liberties is unwarranted. The Christian Democrats may, however, be willing to trade their decisive votes for military entry into the cabinet.

At least five members of the extreme rightist Fatherland and Freedom group, including its leader, have sought asylum in the Ecuadorean Embassy. More moderate opposition groups are unlikely to mourn the loss of these lightning rods for government repression.

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PAKISTAN-BANGLADESH: Islamabad has reluctantly decided to accept a US-sponsored proposal that provides an interim solution for dividing the debt between Pakistan and Bangladesh.

At issue is some \$1.2 billion in debts owed to members of the Aid-Pakistan Consortium which were incurred on behalf of the country's former East wing, now Bangladesh. The consortium had earlier maintained that these debts are the responsibility of Islamabad until Bangladesh assumes the liability and in March had offered to continue short-term debt relief until an acceptable division of the debt could be worked out. Pakistan demurred, and threatened to cease servicing these debts after 30 June 1973, claiming that they posed an undue burden on its economy and that the debt responsibility had shifted to Dacca as the successor state. The consortium held both Pakistan and Bangladesh responsible for the impasse and made new pledges of "non-humanitarian" economic aid conditional on the continued servicing of the total debt.

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The latest US proposal was designed to prevent Pakistan from defaulting on the debt and the resulting necessity to cut economic aid to either Pakistan or Bangladesh. It calls for Pakistan to continue servicing the debt of both wings until June 1974, when it will be relieved of servicing the project-aid portion disbursed before December 1971 in Bangladesh. Until June 1974, the aid donors will continue to provide Pakistan with substantial debt relief. The proposal also offers Pakistan the prospect of long-term debt rescheduling once a division of all debt liabilities is agreed to.

Pakistani acceptance of the consortium proposals defers for another year the need to decide on a final division of debts. Islamabad has expressed dissatisfaction with its continuing liability for servicing commodity loans incurred in Bangladesh. A resolution of the bilateral economic issues between Pakistan and Bangladesh will depend on the prior resolution of existing political and humanitarian issues which are not presently near solution. Thus, another debt default crisis could occur next year.

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FOR THE RECORD*

International Monetary Developments: The dollar again hit new lows in European currency markets. Austria is the only country so far to follow Germany in revaluing its currency. The value of the schilling was raised by 4.8 percent; close trade ties with Germany and a high domestic rate of inflation were the principal reasons for the move. The other major capitals have indicated their intention not to follow suit. [REDACTED]

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International Grain Trade: A Dutch agricultural official told the US Embassy that inasmuch as the Netherlands is highly dependent on imports of US soybeans and meal it would be highly displeased if Washington gave preferential treatment to Japan when allocating stocks available for export. Japan has been seeking special consideration. [REDACTED]

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East Germany - US: The Union Bank of California has agreed to extend East Germany a \$17-million line of credit. It was requested by the East Germans to facilitate the expansion of bilateral trade, which has been relatively low--approximately \$25 million in 1972--according to the Department of Commerce. East German officials have expressed a desire to increase substantially imports of US computers and grain. [REDACTED]

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Albania-CSCE: Albania has formally rejected Helsinki's invitation to participate in CSCE, charging that the conference will merely confirm US and Soviet hegemonistic ambitions at the expense of European nations. Tirana pointedly ignored invitations to the CSCE preparatory talks, answering them only through vituperative blasts at Moscow and Washington. [REDACTED]

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**These items were prepared by CIA without consultation with the Departments of State and Defense.*

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